SEABRIDGE
INVESTMENT ADVISORS, LLC

Asia Strategy Q1 2022

Portfolio Manager: Dave Descalzi
Investment Style: Asian Equities

The Asia Strategy seeks to invest in companies that operate mainly in Southeast Asia that supply goods in support of the export trade, capture the full return potential of manufacturing that increasingly involves automation and higher value-added goods, address the needs of a rising consumer class in Asia, benefit from China plus one theme, and/or generally benefit from the higher growth profile of the region.

Outlook and Positioning:

We have long been less interested in China's investments largely because of the government's practice of incorporating its social and economic priorities into the strategic objectives of the private sector. And yet, China holds the key to the investment outlook in the region even if we view with skepticism, China's investment per se. We believe its size and growth potential are simply too big to ignore and affect the growth profile and investment landscape of the entire region. China is dealing with significant issues. Residential property has been overbuilt, and China needs to work through the excesses. As of the end of the quarter, Shanghai was in lockdown, directly affecting 25 million people due to a "local" outbreak of Covid. Finally, the quarter closed on a sour note with China's pledge of support for Russia despite that country's horrific invasion of Ukraine.

The quarter's dour China-related news flow further encourages us to maintain our reluctance for direct investment in Chinese companies. Our "China" exposure can be achieved in other ways. Taiwan continues to be favored because it is the job shop in technology hardware and in areas where we see strong secular growth such as data centers, 5G, the metaverse, artificial intelligence, the internet of things, factory automation, e-commerce, and streaming video. Southeast Asia is also a viable way to access the region's strong growth potential without taking untoward China risk.

Despite the China issues noted above, Asia remains the highest growth region in the world. For this reason, primarily, we believe that Asia represents a sensible way for investors to diversify out of U.S. markets that look increasingly vulnerable to high inflation and rising interest rates.

Contributors and Detractors:

In the face of a very volatile trading period that was caused by, but not limited to, broad-based inflation and the geopolitical struggles surrounding the unthinkable Russian invasion of Ukraine, we were satisfied to see the portfolios in the Asia Strategy continue to build upon the strong relative performance from 2021. Our overweight positions in real estate and the financial sector contributed to the outperformance. As for stocks, Suntec REIT, Ascott Residence Trust, Keppel REIT, and Amata from Singapore and Thailand further contributed to our satisfactory results. Of these strong real estate holdings, Suntec REIT was our most recent addition to the Asia Strategy in June of 2021. It was added as a bit of an inflation hedge at the time which has played out well in the closing days of 2021 and the beginning of 2022. Suntec REIT's portfolio comprises prime commercial properties in Suntec City, two-thirds interest in Suntec Singapore Convention & Exhibition Centre, one-third interests in One Raffles Quay, Marina Bay Financial Centre Towers 1 and 2, and others. They have a large office footprint and consequently should be a beneficiary of corporate moves from north Asia, particularly Hong Kong, to Singapore, which is viewed by many companies around the world as boring, benign, and well situated for doing business in Asia. The properties had been hit hard by the pandemic, still we reckon that distributions are now running at about 90% of pre-pandemic levels. The stock currently yields close to 5% and we can see the yield exceeding 6%, absent price appreciation.

Our underweight position in energy stocks was the largest negative factor given the fact that energy, after many years of lagging broad global benchmarks, has been by far the best performing sector in the quarter.

Portfolio Activity:

With the broad market pullback that occurred a few weeks into the quarter, we invested a portion of our significant cash in several holdings at attractive entry points. One of the larger purchases was in the iShares South Korea ETF. We like the fundamentals of the country. Because of the peculiarities of the Korean market, we do not have the ability to custody locally traded securities. The ETF provides an efficient, inexpensive way to gain some broad exposure. It is now one of the larger positions in the portfolios.